

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 DRC-01 IO-14 SCI-06 FEA-02 INT-08

AID-20 COME-00 FRB-02 TRSE-00 XMB-07 OPIC-12 CI P-02

LAB-06 SIL-01 OMB-01 NEA-11 /218 W

----- 038479

R 211917Z JAN 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9859

INFO AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY STOCKHOLM

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01063

E.O. 11652: GDS

TAGS: EFIN, ECON, ENRG, GW

SUBJECT: T/IEP: FEBRUARY 11 FOREIGN MINISTERS MEETING

ON INTERNATIONAL ENERGY PROBLEMS

REF: (A) STATE 7324; (B) BONN A-31; (C) BONN 958;

(D) BONN 1017; (E) BONN 490 AND BONN 957

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1. SUMMARY. FOLLOWING IS A SUMMARY ANSWER TO REFTEL

A. IN GENERAL, FORECASTS OF ECONOMIC DEVELOPMENT IN THE FRG HAVE BEEN REVISED UPWARD FROM THOSE PREPARED IN DECEMBER AND EXPERTS NOW EXPECT REAL GNP TO RISE BY ONE TO 2 PERCENT. THE RATE OF INCREASE OF CONSUMER PRICES IS FORECAST AT ANYWHERE BETWEEN 8 AND 11 PERCENT. POLICY REACTIONS AND VARIOUS FORECASTS ARE LISTED BELOW. REPLIES ARE KEYED TO PARAGRAPH 6 OF REFTEL A. END SUMMARY.

A. MONETARY AND FISCAL POLICY

(1) A COMPLETE DESCRIPTION OF MACRO-ECONOMIC POLICY UNDERTAKEN BY THE FRG IN RESPONSE TO THE ENERGY CRISIS IS CONTAINED IN PARAGRAPH 15 OF REF D.

(2) ADDITIONALLY, THE BUNDES BANK ACTED ON JANUARY 11 TO REDUCE MINIMUM RESERVE REQUIREMENTS. THIS ACTION WAS CHARACTERIZED AS AN EFFORT TO NEUTRALIZE THE EFFECTS OF FOREIGN EXCHANGE OUTFLOWS WHICH HAD BEEN STIMULATED BY THE OIL CRISIS. THE TOTAL EFFECT WILL BE TO REDUCE MINIMUM RESERVES BY DM 4.5 BILLION.

(3) CAPITAL CONTROLS. THE BARDEPOT ORDINANCE WAS RELAXED SOMEWHAT EFFECTIVE JANUARY 1, 1974 (REF E). IN ADDITION, IT IS EXPECTED THAT THE CABINET WILL FURTHER RELAX CAPITAL CONTROLS ON JANUARY 23 (REF E).

B. GENERAL TRADE POLICY

(1) THE ONLY GENERAL TRADE POLICY ACTIONS TAKEN BY THE FRG HAS BEEN THE IMPOSITION OF EXPORT LICENSING REQUIREMENTS ON PETROLEUM AND PETROLEUM PRODUCTS. WE CANNOT CONCEIVE THE FRG PURSUING A COURSE OF COMPETITIVE DEVALUATION. ON THE CONTRARY, GOVERNMENT SPOKESMEN (REFTELS) HAVE REPEATEDLY STRESSED THAT THEY HAVE NOT WELCOMED THE EXTENT OF THE RECENT DEPRECIATION OF THE DM VERSUS THE DOLLAR BECAUSE OF THE DESTABILIZING EFFECT ON DOMESTIC PRICES.

C. POST DECEMBER FORECASTS

(1) GNP, PRICE AND UNEMPLOYMENT DEVELOPMENTS. AS THE TABLE BELOW INDICATES, FORECASTERS ARE NOW TENDING TO REVISE THEIR DECEMBER ESTIMATES UPWARDS.

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THE GENERAL OPINION IS THAT REAL ECONOMIC GROWTH WILL REACH A RATE OF ONE TO 2 PERCENT ABOVE 1973 (SEE ALSO REF B).

FORECASTS FOR 1974

SOURCE	REAL GNP	CONSUMER PRICES	UNEM- PLOYMENT	DEFLATOR
GOVERNMENT	0-2	8.5	-	500-750
BUNDES BANK	02	8-11	-	500

COUNCIL OF

ECONOMIC EXPERTS 1 8 6.5 -

KIEL UNIVERSITY 1.5 OVER 8 - 500

HWWA HAMBURG 1-2 MIN OF 8 - -

GERMAN ECONOMIC

INSTITUTE 1 7.5 7.5-8 450

PERCENT GROWTH OVER 1973

AVERAGE FOR THE YEAR IN THOUSANDS. UNEMPLOYMENT IS
FORECAST IN ABSOLUTE NUMBERS. THESE FIGURES WOULD BE
COMPATIBLE WITH 2.2 TO 2.5 PERCENT UNEMPLOYMENT RATE,
DEPENDING ON THE WORK FORCE.

(2) THE EMBASSY HAS REPORTED ON
BUNDES BANK EXPECTATIONS REGARDING THE FOREIGN

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SECTOR (SEE REF C). WITHIN A RANGE OF DM 20 TO DM 25 BILLION, MOST EXPERTS EXPECT THE TRADE SURPLUS TO BE CLOSE TO DM 25 BILLION AND EXPECT A CURRENT ACCOUNT SURPLUS OF ZERO. THE KIEL INSTITUTE, FORECASTING ON A NATIONAL INCOME ACCOUNTS BASIS, EXPECTS A TRADE SURPLUS OF ONLY DM 1 TO 2 BILLION DOWN FROM THE DM 25 BILLION OF 1973. THEY EXPECT EXPORTS TO GO UP WHILE IMPORTS STAGNATE, AND WOULD EXPECT TO SEE A

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DM 2-3 BILLION INCREASE IN THE TRADE SURPLUS IN THE ABSENCE OF RISING OIL PRICES. THEY ALSO PREDICT THE CURRENT ACCOUNT SURPLUS AT ZERO.

(3) COMMENT. ALTHOUGH ALL INSTITUTES ARE VERY RELUCTANT TO FORECAST IN THE FACE OF MAJOR UNCERTAINTIES FACING THE ECONOMY, THOSE LISTED ABOVE HAVE PROVIDED CONFIDENTIAL VIEWS FOR OUR USE. IT IS NOTEWORTHY THAT THE INSTITUTES NO LONGER BELIEVE THAT OIL SHORTAGES OR BOTTLENECKS WILL BE A SIGNIFICANT LIMITING FACTOR ON THE RATE OF REAL GROWTH IN 1974. ALL SEE EXCESSIVE INCREASES IN OIL PRICES AS THE KEY PROBLEM, AND THE ONE MOST DIFFICULT TO FORECAST. THEY AGREE THAT SOME DAMPENING OF DOMESTIC CONSUMPTION MAY RESULT FROM SHARPLY RISING PRICES, BUT DO NOT ANTICIPATE MAJOR DISTORTIONS WHICH MIGHT HINDER GROWTH. THEY DO AGREE THAT OIL PRICES, AS CURRENTLY ANNOUNCED, WOULD RESULT IN AT LEAST A 2.5 PERCENTAGE POINT ADDITION TO THE RATE OF INCREASE OF THE COST-OF-LIVING INDEX.

D. SHIFTS IN DEMAND AND UNEMPLOYMENT

(1) LITTLE CONCERN, SO FAR, IS EXPRESSED ABOUT MAJOR SHIFTS IN DEMAND AND EMPLOYMENT. THERE IS A GOOD CHANCE THAT EMPLOYMENT IN THE AUTOMOTIVE INDUSTRY WILL SUFFER SOMEWHAT, AND THAT THE CHEMICAL INDUSTRY MAY BE ADVERSELY AFFECTED. THE EXPERTS SEEM TO BELIEVE THAT ENOUGH JOBS ARE AVAILABLE TO EMPLOY ALL WHO MIGHT SUFFER FROM SHIFTS DUE TO OIL SHORTAGE. THE KIEL INSTITUTE NOW EXPECTS THE MONTHLY RATE OF UNEMPLOYMENT TO PEAK AT AROUND 600,000, WHILE NONE OF THE INSTITUTES EXPECT AVERAGE ANNUAL UNEMPLOYMENT TO EXCEED 500,000 WORKERS. JUDGING FROM THE NUMBER OF WORKERS WORKING REDUCED HOURS, FIRMS APPEAR TO BE USING THIS METHOD TO HOLD ON TO THEIR SCARCE LABOR SUPPLY, AS THEY DID

IN 1971 AND 1972 (SOURCES: KIEL AND HAMBURG).
(2) THE KIEL INSTITUTE, THE ONLY ONE WILLING TO
HAZARD A GUESS ON THE SUBJECT, IS FORECASTING THAT
THE RATE OF INCREASE OF WAGES WILL BE AROUND 11 PERCENT.
THIS ESTIMATE IS BASED ON THEIR BELIEF THAT LABOR WILL
MODERATE ITS DEMANDS IN THE FACE OF THE CURRENT
ECONOMIC SITUATION, AS SHOWN BY A RECENT SETTLEMENT
(FOR A SMALL NUMBER OF WORKERS) IN THE METAL WORKING
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INDUSTRY, WHICH DID INDEED AMOUNT TO ONLY 11 PERCENT,
AS OPPOSED TO THE OPENING DEMANDS OF 15-20 PERCENT.
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